



HADLOW
COLLEGE

Innovation. Experience. Excellence.

MINUTES OF THE FINANCE, COMMERCIAL & RESOURCES COMMITTEE HELD 26 JUNE 2014

Present: Mr P Dubrow -Chair
Mr P Hannan
Mr N Coffin
Ms S Shelton

In attendance:
Mr J Allen -Clerk
Mr M Lumsdon-Taylor -Director of Finance & Resources
Ms C Johannes - Head of Finance & Projects

The meeting commenced at 09.30.

APOLOGIES FOR ABSENCE & DECLARATION OF INTERESTS

82. Apologies were received from Mr C Potter and Ms L Brown. There were no declared interests against any agenda item.

MINUTES

83. It was **RESOLVED** that the minutes of the meeting of the Committee held 13 March 2014 be approved as a correct record and signed by the Chair.

MATTERS ARISING

84. There were no matters arising.

PERFORMANCE REPORT

85. The College '*Performance Report*' for periods 1 to 9 was received (copy attached to the signed minutes). The report covered the following:

- College Operations to date (30/4/14)
 - Income & Expenditure Account & balance Sheet
 - Cash flow actual to date
 - Capital expenditure to date
- Projections to 31 July 2014
 - Income and Expenditure projection to 31 July 2014
 - Capital budget projections to 31 July 2014
 - Cash flow projections to 31 July 2014
- Performance Indicators and Risk Assessment
- Appendices
 - Headline management accounts to 30 April 2014
 - Detailed cash flows including projections to 31 July 2014
 - Headline capital reports including projections to 31 July 2014
 - Detailed I&E projections to 31 July 2014

86. The following key points were noted:

- (i) The College is showing a £150,000 surplus against a profit of £187,500 budgeted for the period (9 months).
- (ii) The Hadlow Group net profit at the end of period 9 stands at £197k.
- (iii) Actual SFA/EFA student numbers are 1,350 against the allocation of 1,330, a positive variance of 20.
- (iv) Actual HEFCE student numbers and retention are a risk to achieving the year-end forecast.
- (v) College cash flow is forecast to be £1,100,000 against the budget £1,000,000 as at 31 July.
- (vi) Revenue capital spend is in line with the agreed budget.
- (vii) The year-end forecast surplus for Hadlow College is £220k against the budget of £250k, a negative variance of £30k.
- (viii) The Group surplus at year-end is forecast at £260k.
- (ix) Year-end surpluses are forecast for Betteshanger (£50k); Hadlow Pre School (£5k); and Produced in Kent (£35k).
- (x) A year-end deficit of £50k is forecast for the Hadlow Rural Community Free School as a result of extra costs incurred on staffing issues and the need to replace the Head.
- (xi) Total core borrowing stands at £4,900,000; 30% of College turnover on a projected group turnover of £16,600,000.
- (xii) The Management Accounts confirmed that all existing banking Covenants are being met.

87. The Committee noted and welcomed the inclusion of the Financial Risk Register incorporated within the Performance Report. The Risk Register confirmed that the College is still under its HE numbers target. The cost of impact has increased due to lower than projected retention with the financial in-year impact estimated at circa £750,000. Surpluses generated elsewhere would mitigate against this loss as well as reduced HE costs of £550,000. The two other 'High' risks noted were around cash balances and net income from commercial activities. Since the last meeting it was confirmed that there has been no change in the risk assessments of these three 'High' risks.

88. The Committee discussed in detail the current financial performance of the Hadlow Rural Community Free School (HRCFS) and noted the reasons given for the underperformance against budget. The Committee asked what was the true cost to the College in terms of overhead costs that cannot be currently charged against HRCFS. Overhead costs including transport, maintenance, IT and other utility costs are forecast at £150,000. It was confirmed that these overhead costs would be treated as a 'deferred deferral' over a period of time to enable the College to receive full payment for these overhead costs.

89. The Committee noted, and welcomed, that the financial forecasts for the HRCFS show that during the transitional period a surplus is forecast from 2015/16 onwards. It was also acknowledged that the Hadlow Group has been able to financially assist the HRCFS during its first year and this has shown the benefit of increased financial capacity arising through the development of the Group.

90. It was noted and welcomed that all supplier payments are up to date with the exception of those that are in dispute. It was agreed that in future Performance Reports a commentary to be provided on the status of any, if any, payments of £20k or more that exceed the 30-day payment target.

91. A discussion took place on the feasibility of moving the Broadview Garden Centre to the Farm Shop on the A26. It was **AGREED** to make available for the next meeting a short report summarising possible 'options'.

92. It was **RESOLVED** to note the Performance Report up to Period 9.

HADLOW GROUP BUDGET 2014/15 & 3 YEAR FINANCIAL FORECASTS

93. The Committee received the 'Hadlow Group Budget 2014/15' and '3-Year Financial Forecasts 2013-2016' for both Hadlow College and West Kent & Ashford College (WKAC) (copies attached to the signed minutes). The reports were supported with a presentation on the budget made by the Director of Finance.

94. The proposed budget continues the twelve-year trend of returning positive budgets which was welcomed by the Committee. It was noted that this was the first Hadlow College Group (HCG) structured budget. The 2014/2015 budget takes into account continued control of staffing positions and a tight control of expenditure for the group within appropriate controls in turnover (student growth targeted) with the expansion of new segments (Free school, Betteshanger & WKAC).

95. In summary, HCG is profiling a £569,000 group profit (£321,000 Hadlow College & £248,000 WK.AC respective) group cash movement of £498,000 (£250,000 Hadlow College & £248,000 WK.AC respective).

96. The budget outlined a clear vision for the enlarged Group with appropriate risk structures and contingency to ensure all targets are adhered to.

97. The Director of Finance informed the Committee that the budget forecasts for WKAC are derived from the work arising from Due Diligence and best estimates on information made available from 'K' College. As there is some risk around the robustness of finance information from 'K', the forecasts have a 'health warning' attached to them.

98. The College Group financial objectives are structured to ensure a virtuous circle of positive financial performance; surplus, liquidity, debt management & stable reserves. The fundamental risks for the Hadlow College Group relate to the achievement of above target Further Education recruitment (16-18 Hadlow: 1,100; WKAC: 3,330), Higher Education global numbers (Hadlow: 650; WKAC: 400), and continued containment of cost base. The Hadlow 'Group' forecasts are as follows:

SEGMENT	FORECAST TURNOVER 2014/15	FORECAST SURPLUS 2014/15	CASH HOLDINGS JULY 2015
Hadlow College	£16,974,000	£285,000	£1,450,000
Betteshanger	£234,000	£15,000	£2,520,000
WKAC	£24,115,000	£248,000	£1,000,000
Hadlow Rural Community Free School	£625,000	£1,000	£100,000
Grove Park Ltd	£150,000	£-	£300,000
Hadlow Pre-School	£100,000	£10,000	£10,000
Hadlow Produced in Kent	£265,000	£10,000	£30,000
HADLOW GROUP	£42,463,000	£569,000	£5,410,000

99. It was confirmed that five key fiscal drivers underpin the budgetary process, these being:

1. All Curriculum divisions must return a baseline contribution of 50%
2. All Curriculum divisions must return and show net 5% growth in either FE or HE student count
3. Net contribution from core business must be equal to or greater than commercial net profits
4. All College overhead, unless specifically cannot grow by more than 5%
5. Any commercial loss positions must show improvement of baseline 25% for the forthcoming year (against in year budget)

100. The % of staff costs to turnover is 53% for Hadlow and 64% for WKAC and it was confirmed that both % figures are in line with sector benchmark averages. Appendix 1 of the budget outlined the proposed Hadlow College Performance Pay Structure for 2014/15.

101. The risk and sensitivity analysis confirmed the following 'High' risks:

- 16-18 Student numbers are not achieved – For both Hadlow College and WKAC profitability is geared on achieving 16-18 student numbers
- HEFCE Main Recurrent Grant envelop is not achieved
- Budgeted levels of tuition fee income are not achieved
- Other income streams fail to deliver in both revenue and profit
- Pay expenditure is exceeded
- Net income from Commercial activities is not achieved
- Cash balances fall significantly below minimum levels due to unidentified causes – WKAC only.

102. The budget paper outlined the actions to be taken to mitigate against each of the 'High' risks.

103. The College Capital Programme 2014/15 is divided into three segments:

- Hadlow College Core Investments - £400,000. To be funded through Grants (£150,000), Reserves (£150,000) and Leases (£100,000)
- WKAC Exceptional Developments & Planning Investment - £18,150,000 with £12,900,000 for WKAC infrastructure improvements. WKAC capital to be funded through transitional budgets
- Hadlow College Group Investment - £2,575,000 to be funded through Grants.

104. It was noted that the proposed Capital Programme excludes the Sports Complex that depends on Grant funding from the SFA.

105. It was also noted that the proposed capital budget expenditures are still dependent on a number of quotations yet to be received so there may be a change to the overall total. Any cost changes required to the Capital Programme would be brought to the Committee's attention.

106. The forecasts in the '*3 Year Financial Forecasts*' for both Hadlow College and West Kent & Ashford College were completed in the template prescribed the Skills Funding Agency. The forecasts for Hadlow College confirm a financial health assessment of 'Good'

for 2013/14 and 2014/15; and 'Outstanding' for 2015/16. The forecasts for West Kent & Ashford College confirm a financial health assessment of 'Satisfactory' for 2013/14 and 2014/15; and 'Good' for 2015/16.

107. It was **RESOLVED** to recommend that the Board, at its meeting on 10 July 2014, approves:

- (i) Hadlow Group Budget 2014/15 including the Hadlow College Performance Pay Structure for 2014/15 outlined in Appendix 1 in the Hadlow Group Budget;
- (ii) Hadlow College Commentary & 3 Year Financial Forecast; and
- (iii) West Kent & Ashford College Commentary & 3 Year Financial Forecast

108. The Chair placed on record the Committee's appreciation of the detail of the first Hadlow Group Budget and congratulated the finance team for the work undertaken to make available the budget.

CAPITAL PORTFOLIO UPDATE

108. The Committee noted the outcomes arising from the recent meeting of the Betteshanger Sub Group and of the 'delegated authority' given to the Director of Finance to negotiate further on the fees for design and construction.

109. The Committee noted the reports made available – '*Capital Portfolio update*' and the '*Projects and Partnerships update*' (Copies attached to the signed minutes).

110. It was **RESOLVED** to note the report.

TENDERS

111. The College termly report '*Tenders*' was received (copy attached to the signed minutes). The report confirmed details of the tenders currently being pursued.

112. The Committee noted the outcomes of the three tender processes outlined in the report, with confirmation given in the report that each of the three tenders awarded was based on lowest price.

113. It was **RESOLVED** to note the report.

HUMAN RESOURCE EXCEPTION REPORT

114. The Committee received the termly '*HR Exception Report*' (Copy attached to the signed minutes). The report informed the Committee on the number of joiners and leavers; provided an update on pay and benefits; College Structure Update; Consultation; safeguarding; and current disputes.

115. It was **RESOLVED** to note the report.

HEALTH & SAFETY

116. The Committee received the following reports (copies attached to the signed minutes):

- H&S Termly Report
- Minutes of the H&S Committee held February & June 2014
- H&S Action Plan

117. It was **RESOLVED** to note the H&S termly report.

MONITORING OF COLLEGE PERFORMANCE

118. The College report '*Monitoring of College Performance*' was received (copy attached to the signed minutes). The Committee is responsible for making assessments in the two areas of finance & estates; and staff & human resources.

119. Against the 15 agreed performance indicators for the area of finance & estates, three 'Amber' assessments were made on cash generated, forecast year-end outturn, and debtor days. All other assessments were confirmed as 'Green'.

120. Against the 11 agreed performance indicators of the area of staff & human resources, an 'Amber' assessment was recorded against current staff turnover (currently at 12.5%).

121. It was **RESOLVED** to inform the Board of the following assessments:

Finance & Estates	No Risk/ No Concerns
Staff & Human resources	No Risk/No Concerns

ANY OTHER BUSINESS

122. There was no other business.

DATE OF NEXT MEETING

123. To be confirmed.

The meeting closed at 11.50.

Signed: _____ Date: _____
(Chair)

CURRENT SUMMARY ACTION LIST

MIN	ACTION	REVIEW
90	In future Performance Reports a commentary to be provided on the status of any, if any, supplier payments of £20k or more that exceed the 30-day payment target.	Nov 2014
91	To make available for the next meeting a short report summarising possible 'options' on the location of the Boardview Garden Centre	Nov 2014
105	Any cost changes required to the Capital Programme to be brought to the Committee's attention.	Nov 2014